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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 000854

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H PASS TO CODEL MCCAIN

E.O. 12958: DECL: 04/11/2018  
TAGS: [PREL](#) [PGOV](#) [IS](#) [OVIP](#) [ECON](#) [JO](#) [PTER](#)  
SUBJECT: NETANYAHU MEETS MCCAIN, DESCRIBES OWN "SEAMLINE  
ECONOMY" PROPOSAL

Classified By: Ambassador Richard H. Jones for reasons 1.4 (b) and (d).

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SUMMARY  
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11. (C) On March 19, Likud Party (Opposition) Chairman Binyamin Netanyahu met with U.S. Senators John McCain, Joseph Lieberman and Lindsey Graham to discuss some of the lessons learned in the Lebanon and Gaza withdrawals and the challenges that would be involved in the creation of a Palestinian state. Netanyahu offered his own plan for securing the West Bank and building a new "seamline economy" along the West Bank/Israel border, which could generate revenue for the Palestinian economy and serve as a transitional phase to political peace agreement. END SUMMARY.

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LESSONS OF LEBANON AND GAZA  
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12. (C) On March 19, Likud Party Chairman and Opposition Leader Binyamin Netanyahu met with U.S. Senators John McCain, Joseph Lieberman and Lindsey Graham and discussed some of the issues raised by the potential creation of a Palestinian state. Netanyahu highlighted particular security challenges that arose following the withdrawal of Israel Defense Forces from Lebanon and Gaza, and speculated that the GOI could expect to confront the same challenges in any potential withdrawal from East Jerusalem and the West Bank. He noted that when Israel "walked out" of Lebanon and Gaza, the vacuum left behind was quickly filled by Hizballah and Hamas, respectively. Those groups, Netanyahu said, were significantly strengthened by the Israeli withdrawals and have since been fortified by armaments that now present conventional rocket and missile threats in addition to the terrorist threat that they pose. Netanyahu added that Iran is funding these groups and that this, too, is a challenge that Israel must address.

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NETANYAHU'S SEAMLINE ECONOMY PROPOSAL  
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13. (C) Netanyahu asserted that if Israel concedes areas of East Jerusalem to the Palestinian Authority in ongoing negotiations, the GOI will be at the same risk of a terrorist influx and subsequent creation of a new Iranian outpost, this time on Israel's eastern border. He added that attempts to internationalize Jerusalem would likely fail with similar results. Instead, Netanyahu suggested, there is a "third choice," whereby Israel would continue to control all of Jerusalem and maintain its security, while creating new market-based economic programs along the heavily populated "seamline" of the West Bank/Israel border. Such programs would invite private investments in Palestinian business and

industry opportunities, creating jobs, and producing "real revenues" for the Palestinian economy. In the past, Netanyahu observed, international efforts to pump cash donations through the Palestinian Authority bureaucracy encouraged waste and corruption, and failed to produce sustainable results.

¶4. (C) In contrast, Netanyahu claimed that his own seamline economy plan would achieve three critical objectives: 1) maintain Israel's security; 2) develop the Palestinian economy and produce real revenue; and 3) allow for Jordanian involvement and thereby provide added regional stability. The added advantage to planning these programs along the Israeli/West Bank border, Netanyahu noted, would be that Israel could provide security and retain some control over movement without going into the interior of the West Bank. Additionally, the seamline economy proposal would create new opportunities for cooperation between the GOI and the Palestinian government, and also serve as the "prelude to a political peace" further down the line, Netanyahu said. He claimed that the only three years during which the Palestinian economy grew were those when he served as Israel's Prime Minister.

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THE ROLE OF JORDAN  
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¶5. (C) Regarding Israeli security, Netanyahu noted that Jordanian stability is key. He observed that any future weakening of Jordan and Iraq would pose a tremendous threat to the Israeli home front. Israeli engagement with Jordan on economic and other plans is essential to deterring Hamas from gaining more traction in the West Bank, Netanyahu argued. In

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this vein, he added that continued Israeli control of the Jordan Valley area of the West Bank would be an essential aspect of any final status plan. He noted that there are large areas there "where no one lives," but which could easily be overtaken by terrorist elements. Retired General Yaacov Amidror added that without GOI control of the Jordan Valley, the West Bank could "soon become like Gaza," with new problems of terrorist smuggling and infiltration.

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JONES